

Optimal Coverage of the Treasury Single Account (TSA)

Mark Silins

PEMPAL September 12, 2024

I. Overview of the New TCOP Knowledge Product



Introduction

- The note was produced at the request of the PEMPAL Treasury Community of Practice (TCOP) working group on cash management and forecasting.
- It summarizes the content of the presentation delivered at the group's meeting in November 2023 and incorporates the findings from the group discussions held during the same meeting.
- The note defines a TSA, why it is important and suggests what should be included in the TSA and what should be excluded. The focus is on the more advanced aspects of TSA design that are more difficult to implement in practice.
- The note can be found on the PEMPAL website under knowledge products here <https://www.pempal.org/knowledge-product/optimal-coverage-treasury-single-account>

Contents of Note

1. What is a TSA?
2. Consolidation
3. TSA and the framework for General Government and the Public Sector
4. Why Consolidate Cash in the TSA
5. Consolidation of General Government Funds in the TSA
6. What should be outside the boundary of the TSA
7. Implementation Tactics for Moving to the TSA: How to convince Stakeholders to move to a TSA along with some incentives
8. Summary: Questions to Guide Inclusion or Exclusion from TSA

What is TSA?

- *A TSA is a unified structure of government bank accounts that gives a consolidated view of government cash resources. Based on the principle of unity of cash and the unity of treasury, a TSA is a bank account or a set of linked accounts through which the government transacts all its receipts and payments.*

Treasury Single Account: Concept, Design and Implementation Issues Prepared by Sailendra Pattanayak and Israel Fainboim

- **The big question is what is the optimal coverage of the TSA in any country?**

Why Consolidation is a Core Goal in modern PFM

- Consolidation in government is not just about cash and the TSA, it is also about:
- Coverage of FMIS
- Coverage of allocation decisions through the budget
- Coverage of general government
- Coverage of payments and revenue collection
- Coverage of the balance sheet
- Moving beyond fiscal information to include coverage of performance

All of these elements allow a more comprehensive view of government operations - the fiscal position and the results government achieves

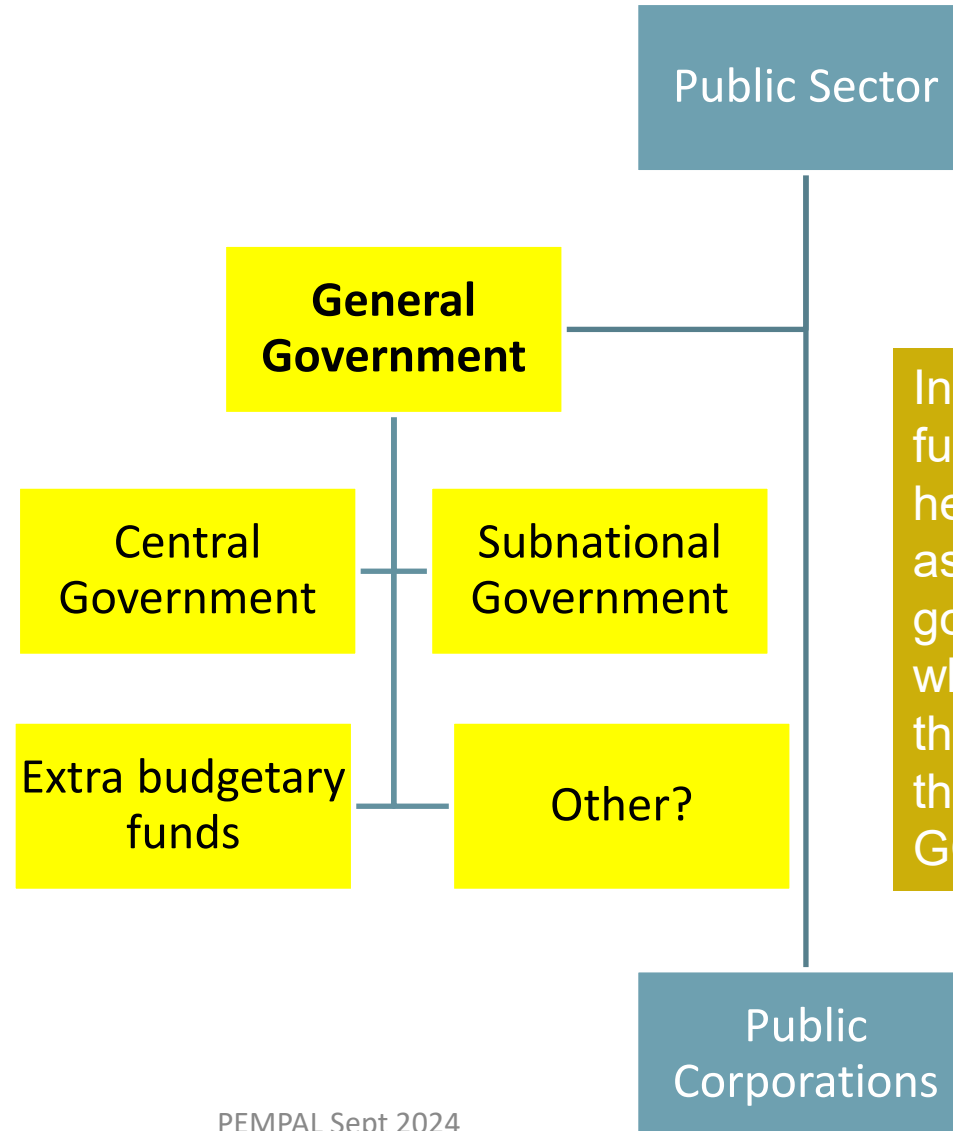
- It also reduces inefficiency within government operations
 - By allowing internal settlements
 - Enabling more timely reporting
 - Allowing decisions to be made using more comprehensive information

- **TSA is a key component of this consolidation framework**

TSA and the Framework for General Government and the Public Sector

What's in a name?

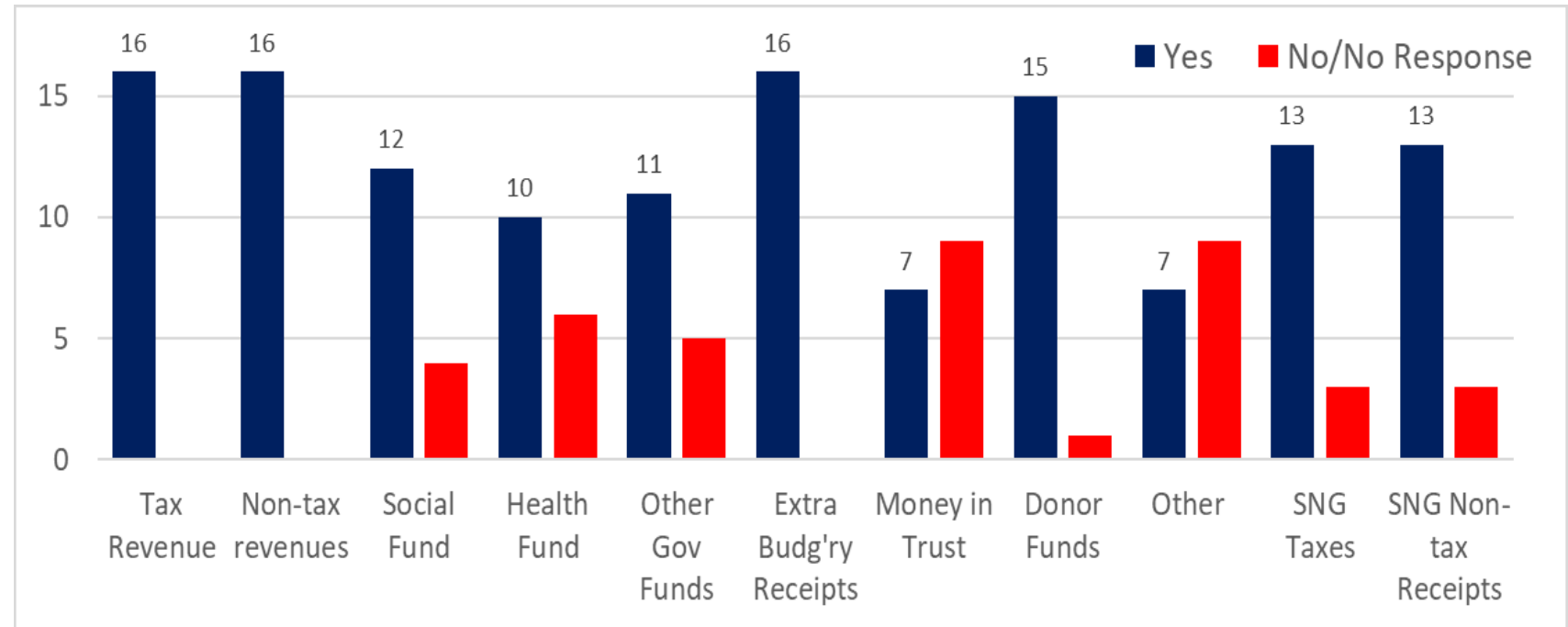
Statutory Body or State Owned Enterprise? These terms are not consistently used internationally. Statutory Bodies have their own organic laws but are still often extensions of GG with specific roles and responsibilities. SoEs are enterprises – formed to be run on a commercial basis. There will be some challenges in determining the sector in a small number of cases



In general, extrabudgetary funds, own revenues, money held in trust, etc. are included as part of the general government sector. Thus while a country may not have this definition, internationally, they generally are included in GG

TSA Coverage – PEMPAL Survey 2021

Most receipts flow directly into the TSA (Yes/No by country response)



- The above graph shows that most countries **share the GFSM General Government Definition**
- There is **extensive coverage** of TSA beyond general tax revenues
- Most countries **include all funds and other extra budgetary sources in the TSA** including donor specific grants and loans
- The management of trust/deposit money remains mixed with less than half of the respondent countries confirming funds are held in the TSA - three did not respond
- Seven countries indicated that funds are held in the TSA in addition to the eight categories identified in the survey but only two gave specific examples
- While funds maybe in TSA, **in some cases these may not be fungible and therefore not available for true consolidation**

Arguments for Consolidation/Separation are common across Different Funds and Types of Money in General Government

Opportunities

- Is the fund largely reliant on government for funding?
- Are they controlled entities to be reported in GG Sector?
- Do they have the skills to manage cash effectively?
- A central cash manager can access a greater range of investment and borrowing tools - expert role
- Reduced reconciliation/settlement across government
- Timely consolidated reporting
- Bank partners have a vested interest in managing cash to their advantage – whole of govt contract/MOU
- Bank Reconciliation workload is reduced

Issues (which can be managed)

- Perceived loss of autonomy/independence control
- Real control over spending decisions - budget entities/fund managers often see bank account as fundamental to control over resources
- Timeliness of cash availability
- Returns on cash holdings

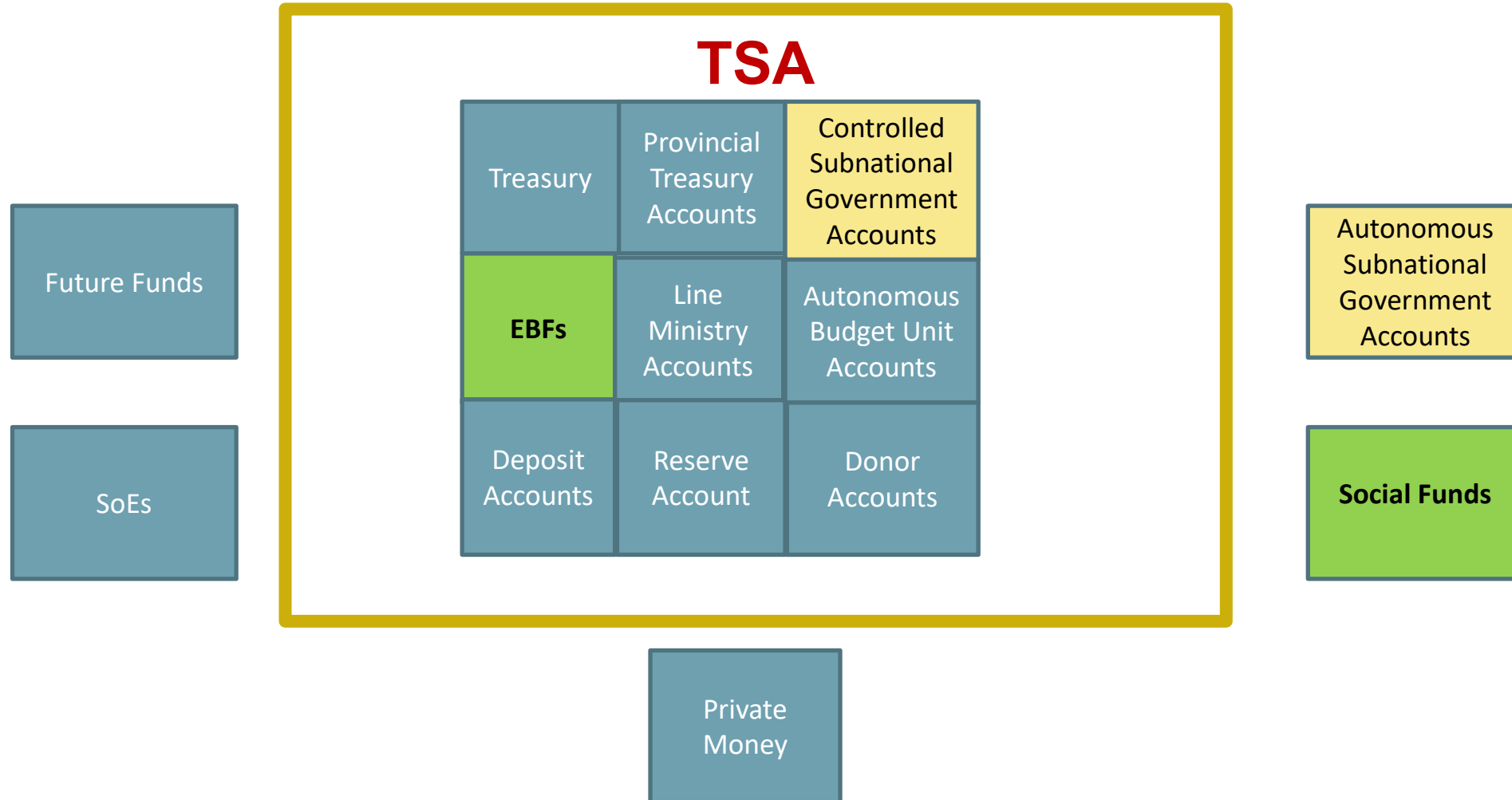
Boundary of the TSA

State Owned Enterprises- These operate as independent government owned businesses, are outside of general government in the public sector. Most SOEs will have their own assets and liability management expertise and strategies and in general it is best they remain at arms length from government. Where it is SOE in name only and clearly part of GG it should be controlled in TSA.

Future Funds – Not every country has a future fund, but they are particularly common where finite resources exist which provide large revenue streams today. Countries set some of the revenues aside to offset the fact that in the future the revenue streams will not be available. As these are long term investments, separate from the general operations of government it is sensible that they are quarantined outside the TSA.

Private Money – There is a distinction between deposit funds and other private money Should the Treasury offer its services to invest private money in the TSA (trust money and funds from private sources e.g. parental contributions to schools are considered public money)? What is the purpose of the TSA? It has not been designed as an attractive investment instrument for all, but as a tool to allow government to best manage and forecast its cash. Would this broader investment role detract from the core focus of TSA – it would. Should government be in competition with banks? If yes is it operating on the same commercial basis as banks – not using its position in government to offset operating costs or discount rates?

Summary - What is Usually in the TSA and what should be outside the TSA?



Implementation Tactics for the move to TSA - How to convince Stakeholders to move to TSA and incentives

- Ensure clarity around overall benefits to government of TSA – Market the benefits to stakeholders
 - discussion paper highlighting the benefits
 - increased returns or decreased costs across government
 - Access to a broader range of investment instruments (reverse repos).
 - Quantify the benefits in terms of tangible improvements to services (increased interest/reduced costs is the equivalent of 3000 new nurses and doctors)
- It is also important to understand why each party resists the move to the TSA and address these concerns/issues directly. Is it because Treasury traditionally withheld funds or because payments were not processed in a timely basis?

Implementation Tactics for the move to TSA - How to convince Stakeholders to move to TSA and incentives (2)

- Is it a perceived loss of control or legislation that defines their authority to manage their own bank accounts?
 - Zero balance accounts do not take the authority away but allow cash to be centralized for investment purposes
 - Gradual change maybe more effective – first make provision for inclusion in the GL of FMIS, with the move to consolidation in TSA occurring once they see FMIS centralizes payment processing but not control over-spending
- This Requires a different role for the Treasury than in the past!!**
- Develop MOUs to define performance requirements, roles of each party and sharing of investment returns

BUT in the end it maybe important to ensure high level political support to push through consolidation where parties refuse to volunteer

In Summary - Questions to Guide Inclusion or Exclusion from TSA

- Which sector are the funds from? General government should be included but the broader public sector and private sector are generally outside the scope of TSA.

Within General Government

The primary position recommended is that all GG should be included unless exclusion is overall in the best interest of governance

- Are the entities/funds largely dependent on government for resourcing? If so it is likely it should be included in the TSA
- Is the fund/entity a controlled GG entity or fully autonomous? All controlled entities should be consolidated whereas there may be arguments for autonomous entities to manage their own cash but in many cases, inclusion is preferred
- Does the entity/fund have significant inter – entity transactions with other parts of GG. If so consider the TSA and even if not in the TSA, consider consolidation in FMIS
- Is the GG entity competent to manage cash? If not then the TSA should be the answer, with shared returns from investment



II. Measuring Performance of the TSA

Existing Performance Measures for TSA are Somewhat Limited

PEFA 21.1

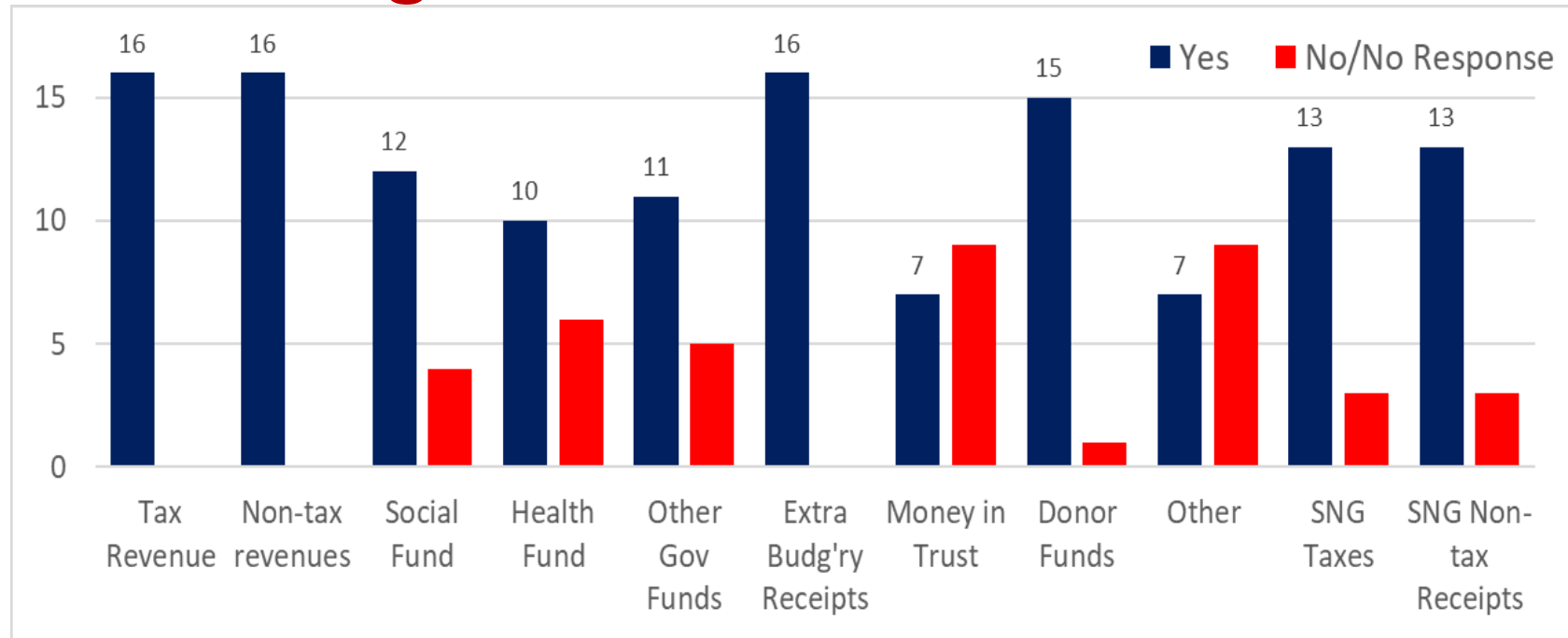
Score

Minimum requirements for scores

- A** *All* bank and cash balances are consolidated on a daily basis.
- B** *All* bank and cash balances are consolidated on a weekly basis.
- C** *Most* cash balances are consolidated on a monthly basis.
- D** Performance is less than required for a C score.

- What is included and what is excluded? – the focus in PEFA is on **budgetary central government only** which is a very narrow focus of the TSA in most PEMPAL countries
- The balances are measured at the time of assessment which may not reflect average available balances
- While PEFA indicates that the intent in creating a TSA concept is fungibility, this is not assessed.

Even our own survey in 2021 regarding Coverage of the TSA was of limited use



It is clear from responses that consolidation of cash is generally quite good however large amounts of these funds remain quarantined and therefore not available for true consolidation

A good PI should measure the effectiveness of the TSA too in ensuring governments commitments are paid in time

Proposed new Indicator for testing through self-assessment in preparation for the Tirana meeting:

TSA Coverage for each of the three most recent months for which data are available, please indicate

	End Month 1 (specify)	End Month 2 (specify)	End Month 3 (specify)	Average
A. Cash balances in the TSA under control of the Treasury and available to meet commitments (in local currency)				
B. Total of other controlled government balances in the banking system (in local currency) *				
C. = $A/(A+B) \times 100$ percent				

IPSAS requires all cash balances of controlled entities in the reporting entity to be reported – cash which is not fungible must also be separately reported in the notes

Thank you for your attention!